
CONTROLLED
FOODS
INTERNATIONAL LTD.

# Annual Report 1973


*LeRoy E. Fuller*
*President*

# Highlights

| | (000's eliminated) 1973 | 1972 |
|---|---|---|
| REVENUES | $20,482 | $15,547 |
| Net income for year before extraordinary income | 601 | 544 |
| Net income for year | 733 | 595 |
| Cash flow | 1,483 | 1,033 |
| Total assets | 14,172 | 8,970 |
| Shareholders' equity | 6,060 | 5,327 |

| | 1973 | 1972 |
|---|---|---|
| Per common share: | | |
| Net income for year before extraordinary income | $ .23 | $ .21 |
| Net income for year | .28 | .23 |
| Cash flow | .56 | .39 |
| Shareholders' equity | 2.28 | 2.00 |

| Number of restaurants at end of year: | 1973 | 1972 |
|---|---|---|
| A&W's | 50 | 49 |
| Fuller's | 20 | 10 |
| Other | 14 | 3 |
| | 84 | 62 |

# CONTROLLED FOODS INTERNATIONAL LTD.

*Interim Report to Shareholders*

for six months ended June 30, 1973

*To Our Shareholders:*

Gross operating revenues have improved substantially from $7,069,476 in 1972 to $9,021,800 in 1973, an increase of 27.6%. This increase has resulted from a full period of sales from the six Fuller's restaurants which were opened in 1972 along with a significant improvement in sales in the A & W Division. In the first half of this year, one Fuller's restaurant was opened in Hamilton and one A & W opened in Sherbrooke; both on May 28. Neither of these units, therefore, contributed to the above sales figure. In addition to these units, nine other Fuller's restaurants and eleven other food services are scheduled to open in the latter half of the year.

Costs connected with the opening of these new restaurants that were incurred up to June 30 have been written off. The write-off of these costs along with the fact that advertising costs have more than doubled over the same period a year ago has resulted in the earnings before extraordinary items and income tax remaining approximately equal to the earnings for the comparable period of 1972.

On Behalf of the Board,

LeRoy E. Fuller
President

August 15, 1973.

## CONTROLLED FOODS INTERNATIONAL LTD.
(and its wholly-owned subsidiaries)

## STATEMENT OF CONSOLIDATED EARNINGS

**for the Six Months Ended June 30, 1973**
*(with Comparative Figures for 1972)*

(UNAUDITED)

| | 1973 | 1972 |
|---|---|---|
| | $ | $ |
| Gross operating revenues | 9,021,800 | 7,069,476 |
| Costs and expenses: | | |
| Operating, selling, general and administrative | 8,264,359 | 6,335,998 |
| Interest | 123,414 | 99,146 |
| Depreciation | 188,390 | 187,359 |
| | 8,576,163 | 6,622,503 |
| Income before income taxes | 445,637 | 446,973 |
| Estimated income taxes | 225,000 | 216,794 |
| Income before extraordinary income | 220,637 | 230,179 |
| Extraordinary income | 32,743 | – |
| Net income for the period | 253,380 | 230,179 |
| Earnings per share: | | |
| Income before extraordinary income | 8.3¢ | 8.8¢ |
| Net income for the period | 9.5¢ | 8.8¢ |

**Note:** Earnings per share are calculated on the basis of 2,660,000 shares outstanding in 1973 and 2,625,000 shares outstanding in 1972.

## CONTROLLED FOODS INTERNATIONAL LTD.
(and its wholly-owned subsidiaries)

## STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

**for the Six Months Ended June 30, 1973**
*(with Comparative Figures for 1972)*

(UNAUDITED)

| | 1973 | 1972 |
|---|---|---|
| | $ | $ |
| Source of Funds: | | |
| Income before extraordinary income | 220,637 | 230,179 |
| Add charges not requiring an outlay of funds: | | |
| Depreciation and amortization | 188,390 | 187,359 |
| Development and franchise costs | 21,021 | 22,261 |
| Funds provided by operations | 430,048 | 439,799 |
| Additional long-term debt financing | – | 225,000 |
| Disposal of fixed assets | 278,198 | 125,000 |
| Decrease in long-term receivables | 13,995 | 190,850 |
| Decrease in other assets | 117,683 | 28,391 |
| | 839,924 | 1,009,040 |
| Application of Funds: | | |
| Purchase of fixed assets | 1,820,742 | 1,240,952 |
| Retirement of long-term debt | 109,562 | 186,891 |
| | 1,930,304 | 1,427,843 |
| Decrease in working capital | 1,090,380 | 418,803 |
| Working capital (deficiency) January 1 | 204,075 | (148,219) |
| Working capital deficiency, June 30 | 886,305 | 567,022 |

# To our Shareholders

It was a good year. It was a tough year. Good, because your company grew dramatically, expanding into new markets, and diversifying into different types of operations. Tough, because food and labour costs soared at an unprecedented rate across Canada. The entire Food Service industry was forced to choose between tighter operating margins or risk a drop in gross revenues by passing on all the costs to the consumer.

In a year of expansion, we chose to reach our goal of a 30+% revenue increase, and accept the lower profit margin. In other words, total sales were more important than the ratio of earnings to revenues. The prime consideration—we did not want to lose new customers at the outset by charging exorbitant prices. In 1973, the struggle was for greater operating efficiency without sacrificing quality. To that end, the performance of our management and operators is to be congratulated.

Gross revenues climbed to $20,482,050 compared to $15,546,814 in 1972. A gain of 32%. Net income before extraordinary items was $601,443 compared to $543,677 in 1972. Net income was lower than estimated and is directly related to the inflationary costs referred to above.

Your company opened a total of 22 units in 1973: nine free-standing Fuller's Restaurants, one A&W Drive-in, plus twelve outlets in the Square One Shopping Centre, Mississauga, Ontario. While these new units were a major factor contributing to our revenue gain, their full potential will be felt in 1974.

One of the key achievements for 1973 was the company's diversification. At Square One Shopping Centre, we are providing all of the food service facilities outside the major department stores. This is one of the largest shopping centres in North America, the largest in Canada, and our twelve operations include brand new types of outlets for us. Among them is a steak and lobster restaurant called the Corkscrew, a Fuller's Junior Cafeteria, and a Gourmet Fair—with six units offering different international cuisines and sharing common seating for about 400. To date, all of these specialized merchandising concepts are performing beyond our expectations.

1974 plans are to build two Corkscrew Restaurants, one Fuller's, and two Fuller's Juniors in Edmonton. We now operate one Buffalo Bill's, eleven A&W's, one Fuller's Junior, and five Fuller's in this city. It is interesting to note that although the company operates in every province from Quebec to British Columbia, approximately one-third of our total revenues are from Edmonton alone. This is a good example of deep market penetration with our established lines: an approach which has many advantages in offsetting competition and achieving cost efficiencies.

Your company is studying expansion opportunities in other markets where we presently operate, in order to capitalize on these "deep penetration" advantages.

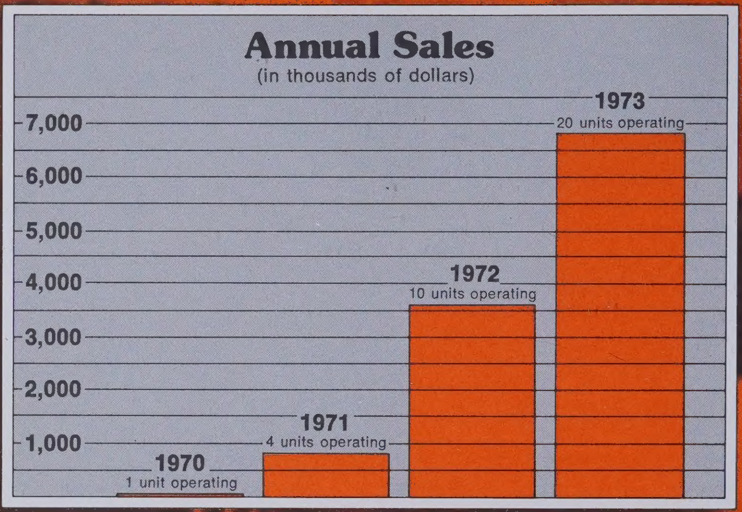
Our goal for the year: continued growth at a healthy rate with better operating margins.

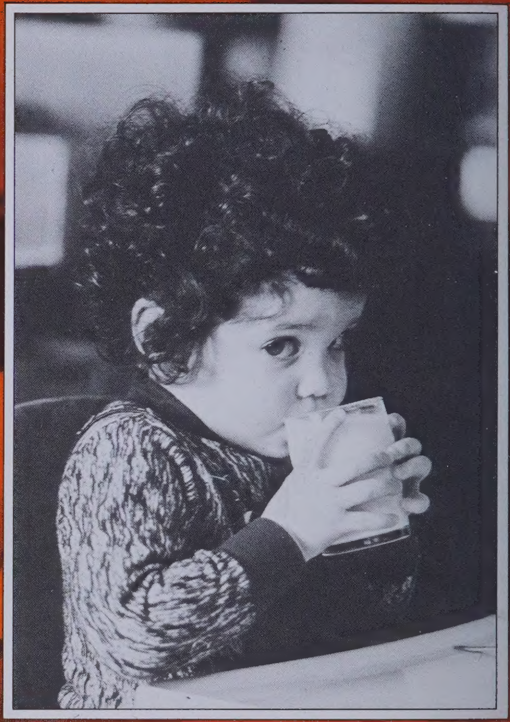
*On behalf of the Board:*

LeRoy E. Fuller

*LeRoy E. Fuller*
*President*

*April 10, 1974*


Annual Sales
(in thousands of dollars)
7,000
6,000
5,000
4,000
3,000
2,000
1,000
1970
1 unit operating
1971
4 units operating
1972
10 units operating
1973
20 units operating




Goodhost

## Fuller's Division

In a single year Fuller's added 10 new restaurants across Canada—a 100% growth in units over 1972! Nine of these are free-standing, one is part of the Square One Shopping Centre.

The new Fuller's are located in Vancouver (1), Edmonton (2), Regina (1), Saskatoon (1), Hamilton (1), Ottawa (2), and Hull (1). The Square One Fuller's is in Mississauga, Ontario.

As you can see from the sales graph, this is the real growth area of your company, leaping from a single unit opening in December 1970, to 20 units producing almost $7 million in 1973.

That success is a reflection of wholehearted consumer acceptance of the Fuller's philosophy. To offer the whole family good choice, good food, good prices, in a cheerful atmosphere with fast and friendly service.

It's a lot to live up to, often calling for a super-effort from management and staff. But the combination adds up to a solid repeat business. And that's the foundation of any restaurant.

The challenge in 1973 was to hold menu price increases to a minimum, even though our costs were soaring by 15% - 20% and more. With so many new units and new customers discovering Fuller's for the first time, we couldn't risk being branded "over-priced" from the outset.

Operating efficiency and careful buying/planning/preparation are the controls necessary to run a profitable Fuller's Restaurant. We believe we have the very best people in the business to achieve that goal.

# A & W Division

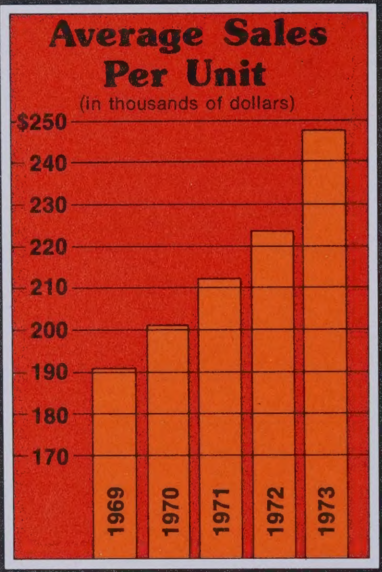
On May 28, 1973, your company opened its 50th A&W in Canada. This new unit is located in Sherbrooke, Quebec, and is enjoying a good first year of operation.

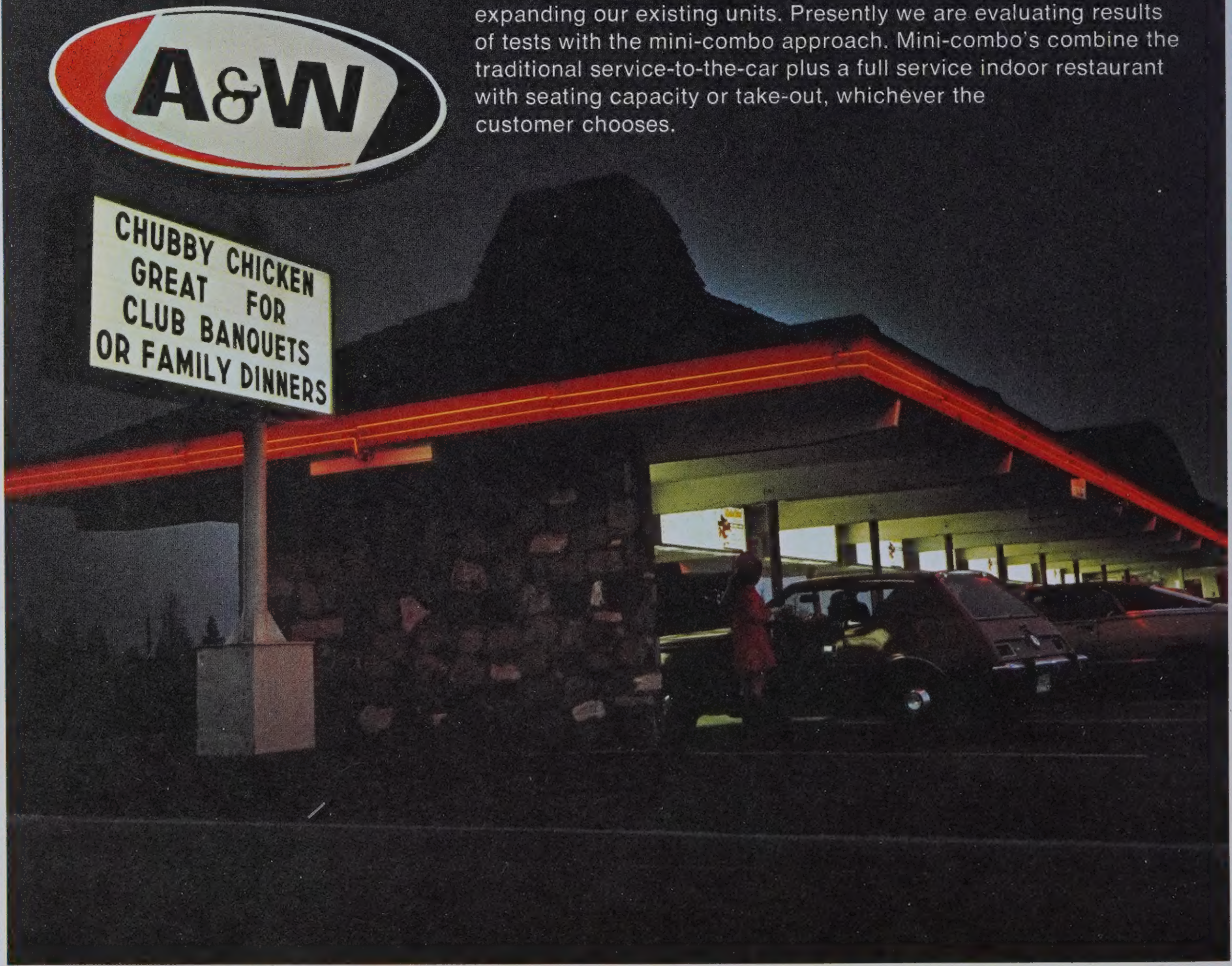
Gross revenues for the division increased again, to a new high of $12,239,725. Up 12%. Equally significant, the average sales per unit recorded a gain from $223,042 to $248,775.

One of the main reasons for this gain was the formation of regional advertising and promotion committees. Each month or two, our operators in a market will get together and plan joint programs and promotions so they can share in higher impact and continuity from their advertising dollars. Even with stiff new competition in many markets, A&W's "number one" position is actually stronger than ever. A fact which is to the credit of our operators and the fine A&W product lines.

The profit squeeze experienced by all other divisions of your company also touched the A&W operations. This year operating profit increased by 1.1% as compared to a gain of 7.2% in 1972.

Your management is working closely with A&W Food Services of Canada Ltd., to determine ways and means of up-grading and expanding our existing units. Presently we are evaluating results of tests with the mini-combo approach. Mini-combo's combine the traditional service-to-the-car plus a full service indoor restaurant with seating capacity or take-out, whichever the customer chooses.




# Outlook

**Growing into the Future**

As most Canadians would readily tell you, the cost of eating skyrocketed—by 17%—last year. It was the largest gain of any area in the consumer price index. How does this affect the Food Service industry, and us in particular?

The first challenge was, and is, to maintain a good profit margin without scaring off customers by whopping price increases. This means our established operations are working for ways to become more efficient in menu planning, buying, preparation and service. At Fuller's, for example, we will emphasize steak and burgers more, and trim the number of items somewhat. Volume increase rather than price increase must contribute more to profits.

At first glance, one might think consumers would eat out less, depressing the market. But in fact, the opposite is true. Contributing factors: lifestyles are changing, and the relative cost of eating out has not increased. Family units are smaller today; many more wives are working full-time. They need a break and it isn't that much more expensive to dine out.

But competition for their dollars is more intensive now. The trend to specialized operations, like the popular steak and lobster restaurants, is increasing. The Corkscrew has proved a very viable and expandable concept, leading to our decision to open two in Edmonton.

Shopping centres are proving to be ideal locations for expansion. They offer concentrated markets, lower initial investment, and an opportunity to diversify with snack-bar kiosks, cafeterias, full-service restaurants and the Gourmet Fair variety approach—all in a more manageable confine.

There's much to be said for concentrating growth in a few markets, rather than spreading into many new ones. The effect of advertising is magnified, management and personnel development is easier, buying power increases. Our success in Edmonton supports this, and we will look closely for opportunities to grow where we have a foothold.

The reputation of a restaurant is in the quality of its food and the calibre of its service. To that end, your company has hired a Manager of Personnel, Mr. Larry Bagshaw; and a Manager of Quality Control & Product Development, Mr. Stuart McLeod. Their close supervision of these two areas is important in maintaining our growth and future success.

Entering 1974, your company is strong, with a solid foundation in established lines, and enjoying a new success in the diversified operations. We want to share our confidence in the future with you. We have momentum now. We are accelerating. And in a society that changes swiftly, we believe the key to *healthy growth* is flexibility and responsiveness.

CONTROLLED FOODS INTERNATIONAL LTD.
*(and its wholly-owned subsidiaries)*

# Consolidated Balance Sheet *December 31, 1973*

## Assets

| | 1973 | 1972 |
|---|---|---|
| CURRENT: | | |
| Cash | $ 1,341,326 | $ 943,383 |
| Notes and accounts receivable (note 2) | 548,470 | 424,894 |
| Income taxes recoverable | 400,664 | |
| Inventory (note 1c) | 417,886 | 249,937 |
| Prepaid expenses and deposits | 10,201 | 69,353 |
| Total current assets | 2,718,547 | 1,687,567 |
| LONG TERM NOTES AND RECEIVABLES (note 2) | 314,838 | 299,174 |
| FIXED (note 3): | | |
| Buildings, equipment and leasehold improvements | 9,317,149 | 5,705,071 |
| Less accumulated depreciation and amortization | 2,135,741 | 1,798,519 |
| | 7,181,408 | 3,906,552 |
| Land | 3,200,144 | 2,107,102 |
| Properties and equipment held for resale | 140,189 | 349,564 |
| | 10,521,741 | 6,363,218 |
| OTHER: | | |
| Trademarks (note 4) | 151,487 | |
| Franchises at cost less amortization (note 1e) | 350,759 | 378,452 |
| Development costs (note 1e) | 16,134 | 18,624 |
| Deferred charges | 46,751 | 82,886 |
| Deposits | 51,890 | 140,432 |
| | 617,021 | 620,394 |
| | $14,172,147 | $8,970,353 |

## Liabilities

| CURRENT: | 1973 | 1972 |
|---|---|---|
| Accounts payable and accrued charges | $ 2,243,469 | $1,132,166 |
| Income and other taxes payable | | 135,719 |
| Current portion of long term debt (note 5) | 382,743 | 228,050 |
| Total current liabilities | 2,626,212 | 1,495,935 |
| LONG TERM DEBT (note 5) | 5,237,639 | 2,147,324 |
| DEFERRED INCOME TAXES (note 1f) | 248,000 | |
| SHAREHOLDERS' EQUITY: | | |
| Capital stock (note 6)— | | |
| Authorized: | | |
| 4,000,000 shares without par value | | |
| Issued and outstanding: | | |
| 2,660,000 shares | 3,381,509 | 3,381,509 |
| Retained earnings | 2,678,787 | 1,945,585 |
| | 6,060,296 | 5,327,094 |

On behalf of the Board:

LeRoy E Kullman Director

Jon Murphy Director

| | $14,172,147 | $8,970,353 |
|---|---|---|

*See accompanying notes.*

CONTROLLED FOODS INTERNATIONAL LTD.

# Consolidated Statement of Income and Retained Earnings

*Year Ended December 31, 1973*

| | 1973 | 1972 |
|---|---|---|
| Revenues: | | |
| Sales—food and supplies | $20,381,047 | $15,398,134 |
| Rental and other income | 101,003 | 148,680 |
| | 20,482,050 | 15,546,814 |
| Costs and expenses: | | |
| Cost of sales—food and supplies | 7,131,707 | 5,401,757 |
| Depreciation and amortization of fixed assets (note 1d) | 487,939 | 365,926 |
| Selling, operating, general and administrative expenses | 11,395,815 | 8,482,865 |
| Interest— | | |
| Long term debt | 299,353 | 205,353 |
| Other | 38,713 | 30,200 |
| | 19,353,527 | 14,486,101 |
| Income before income taxes | 1,128,523 | 1,060,713 |
| Income taxes: | | |
| Current | 198,080 | 517,036 |
| Deferred | 329,000 | |
| | 527,080 | 517,036 |
| Income before extraordinary items | 601,443 | 543,677 |
| Extraordinary items (note 7) | 131,759 | 51,672 |
| Net income for year | 733,202 | 595,349 |
| Retained earnings, beginning of year (note 9) | 1,945,585 | 1,350,236 |
| Retained earnings, end of year | $ 2,678,787 | $ 1,945,585 |
| Earnings per share (note 6): | | |
| Income before extraordinary items | $ .23 | $ .21 |
| Net income for year | $ .28 | $ .23 |

*See accompanying notes.*

CONTROLLED FOODS INTERNATIONAL LTD.

# Consolidated Statement of Source and Application of Funds

*Year Ended December 31, 1973*

| | 1973 | 1972 |
|---|---|---|
| Source of funds: | | |
| Operations— | | |
| Net income for year | $ 733,202 | $ 595,349 |
| Add (deduct): | | |
| Depreciation and amortization of fixed assets | 487,939 | 365,926 |
| Amortization of franchises and other assets | 49,186 | 53,667 |
| Deferred income taxes | 248,000 | |
| Gain on disposal of fixed assets | (9,362) | |
| Extraordinary items | (26,059) | 17,650 |
| Total funds from operations | 1,482,906 | 1,032,592 |
| Decrease in long term receivables | | 217,388 |
| Disposal of fixed assets | 514,972 | 507,712 |
| Disposal of other assets | 107,384 | |
| Additional long term debt financing | 3,490,000 | 935,919 |
| Issue of shares | | 70,000 |
| | 5,595,262 | 2,763,611 |
| Application of funds: | | |
| Fixed assets acquired | 5,562,723 | |
| Less assets sold and leased back | 435,000 | 940,923 |
| | 5,127,723 | 1,856,189 |
| Increase in long term receivables | 15,664 | 182,712 |
| Trademarks and other assets | 151,487 | 103,349 |
| Retirement of long term debt | 399,685 | 262,709 |
| Extraordinary items | | 6,358 |
| | 5,694,559 | 2,411,317 |
| Increase (decrease) in working capital | (99,297) | 352,294 |
| Working capital (deficiency), beginning of year | 191,632 | (160,662) |
| Working capital, end of year | $ 92,335 | $ 191,632 |

*See accompanying notes.*

CONTROLLED FOODS INTERNATIONAL LTD.

# Notes to Consolidated Financial Statements *December 31, 1973*

### 1. Accounting policies

The following is a summary of significant accounting policies used in the preparation of these financial statements.

(a) Principles of consolidation:

The financial statements consolidate the accounts of Controlled Foods International Ltd. and all its subsidiary companies as listed:

Controlled Foods Corporation Limited
A & W Drive-In (Sherbrooke) Ltd.
The Country Fare Restaurant Limited
Buffalo Bill Steak Village Ltd.
Hickory House Ltd.
Kingwall Restaurants Ltd.
Corkscrew Restaurant Ltd.
Courtenay A & W Drive-In Ltd.
Burnaby Foods, Inc.
Burger Family Inn of Billings, Inc.
A & W Soda Shops, Inc.
South Carolina Drive-Ins, Inc.
Restaurantera Cosmopolita, S.A.

All significant inter-company transactions have been eliminated.

The company acquired various subsidiary companies by means of the issue of shares. The assets and liabilities of these companies have been combined in the accompanying balance sheet on a "pooling of interests" basis. The acquisition of all the outstanding shares of a company operating in Southern Ontario and the cost of the assets and undertaking of three restaurants acquired, principally for cash, by a subsidiary company have been accounted for as "purchases."

(b) Foreign currencies:

All U.S. balances have been translated into Canadian funds at par.

(c) Inventory:

Inventories of food and packaging are valued at the lower of cost and net realizable value.

(d) Depreciation:

Depreciation on fixed assets is computed on the straight-line basis over the estimated useful life of the assets at rates varying from 5% to 20%.

(e) Amortization of other assets:

Franchises are being amortized on a straight-line basis over the terms of the contractual agreements which vary to a maximum of twenty years.

Costs of developing the company's computer programs are being amortized on a straight-line basis over five years.

(f) Income taxes:

In accounting for income taxes the companies follow the tax allocation method in which the major timing difference relates to the depreciation of fixed assets.

No recognition has been made in the accounts of possible tax reductions of $173,000 in future years resulting from costs recorded in the accounts in excess of those claimed for tax purposes and from non-capital-losses incurred by certain subsidiaries in 1973 and prior years, which are available for deduction from future taxable income in the respective companies within the limitations prescribed by Canadian tax law.

(g) Comparative figures:

Comparative figures are reclassified to conform with the presentation of the current year.

### 2. Due from shareholders, directors and officers

Included in current and long term notes and accounts receivable are the following amounts:

| | 1973 | 1972 |
|---|---|---|
| Due from shareholders | $ 18,701 | $ 17,104 |
| Due from director | 49,375 | 49,375 |
| Due from officers | 70,000 | 70,000 |
| | $138,076 | $136,479 |

Subsequent to the year end the company received $9,610 on account of the amounts due from shareholders.

In 1972 the company advanced $49,375 to an officer who is also a director of the company. While by its terms this loan is repayable in three annual instalments commencing December 31, 1974, a payment of $25,000 was received in January, 1974.

In 1972 the company also advanced $70,000 to two other officers of the company to enable them to purchase shares of the company under stock option plans (note 6). The loans are repayable in four equal annual instalments commencing January 1, 1975 with interest at 8% per annum and one of the loans is secured by a pledge of the securities purchased. The company has agreed to waive any interest in excess of dividends paid in respect of the shares purchased.

### 3. Fixed assets

Fixed assets are valued at cost to the consolidated companies except for the assets of discontinued businesses which are valued at estimated market value at the date of business discontinuance. The major categories of assets are as follows:

| | Cost | Accumulated depreciation and amortization | 1973 net value | 1972 net value |
|---|---|---|---|---|
| Buildings | $ 3,356,742 | $ 523,503 | $ 2,833,239 | $1,955,762 |
| Equipment, signs, automotive, fencing and paving | 3,974,982 | 1,329,480 | 2,645,502 | 1,176,726 |
| Leasehold improvements | 1,985,425 | 282,758 | 1,702,667 | 774,064 |
| | 9,317,149 | 2,135,741 | 7,181,408 | 3,906,552 |
| Land | 3,200,144 | | 3,200,144 | 2,107,102 |
| | $12,517,293 | $2,135,741 | 10,381,552 | 6,013,654 |
| Property and equipment from discontinued business, held for resale—at estimated market value at date of business discontinuance | | | 140,189 | 349,564 |
| | | | $10,521,741 | $6,363,218 |

### 4. Trademarks

During the year the company acquired, subject to certain conditions, all the issued shares of Restaurantera Cosmopolita, S.A., a company whose only significant asset is certain trademarks registered in Mexico. The purchase price of the shares of $90,000 and the advances to the subsidiary of $61,487 have been allocated as the cost of these trademarks. Payment of the purchase price of the shares may be deferred at the company's option until May, 1976. Also at its option the company may terminate the purchase in the event certain covenants of the vendors are not met.

### 5. Long term debt

Long term debt consists of:

| | 1973 | 1972 |
|---|---|---|
| Bank loan—with interest at 2% over prime, repayable in monthly instalments of varying amounts and due June 30, 1980, secured by a fixed charge against certain properties of a subsidiary and a floating charge on its other assets and undertaking | $2,825,000 | |
| Mortgages and agreements—with interest rates from 7% to 12% and maturing at various dates to August 1986, secured by charges against land and buildings of certain subsidiaries | 2,128,678 | $1,910,286 |
| Notes payable—with interest rates from 8% to 8½% and maturing at various dates to April, 1977 and secured by a floating charge debenture on the assets of a subsidiary | 48,750 | 84,584 |
| Land purchase commitment—due March, 1993 | 250,000 | |
| Lien notes payable—due at various dates to July, 1978, secured by charges against equipment of certain subsidiaries | 277,954 | 380,504 |
| Payment due in May, 1976 for shares of Restaurantera Cosmopolita, S.A. (note 4) | 90,000 | |
| | 5,620,382 | 2,375,374 |
| Less amounts due within one year | 382,743 | 228,050 |
| | $5,237,639 | $2,147,324 |

Principal amounts repayable over the next five years are as follows: 1974—$382,743; 1975—$688,430; 1976—$913,794; 1977—$875,906; 1978—$523,513.

### 6. Capital stock

The company has granted options to eight employees to purchase 40,000 shares at a price of $2.50 per share exercisable at various dates to June 30, 1977 with respect to 32,000 shares and to June 30, 1978 with respect to 8,000 shares. Subsequent to the year end the company granted an option on the same terms to another employee to purchase 5,000 shares.

There would be no dilutive effect on earnings per share if these options were exercised.

### 7. Extraordinary items

Extraordinary items comprise the following—income or (loss):

| | 1973 | 1972 |
|---|---|---|
| Recoveries on sales of discontinued business properties in excess of original estimated values (including income tax reductions of $9,400 in 1973 and $22,060 in 1972) | $ 35,459 | $ (650) |
| Reduction in income taxes from carrying forward prior years' losses and claiming for tax purposes amounts in excess of those recorded in the accounts (note 1f) | 96,300 | 52,322 |
| | $131,759 | $51,672 |

### 8. Statutory information

The remuneration of directors and senior officers amounted to $145,571 (1972—$125,241).

### 9. Prior period adjustment

Canadian taxation authorities have re-assessed the company additional income taxes and interest of $12,443 with respect to the 1969 fiscal year. As a result of the re-assessment the retained earnings balances at December 31, 1971 and 1972, previously reported as $1,362,679 and $1,958,028 respectively, have been restated to give effect to a retroactive charge of $12,443.

### 10. Commitments

Certain subsidiary companies have entered into leases of equipment and real property for varying terms up to a maximum of twenty-one years with rentals varying in some instances with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the succeeding five years are as follows:

| | | |
|---|---|---|
| 1974 | — | $1,085,239 |
| 1975 | — | 1,052,474 |
| 1976 | — | 1,036,459 |
| 1977 | — | 1,008,153 |
| 1978 | — | 861,663 |

### 11. Subsequent event

Subsequent to the year end United States taxation authorities proposed to assess the company additional income taxes of $229,000 relating principally to the sale of Burger Family trademarks in 1971. The company believes this to be in error and will take the action necessary to defend its position.

# Auditors' Report

To the Shareholders of Controlled Foods International Ltd.:

We have examined the consolidated balance sheet of Controlled Foods International Ltd. and its wholly-owned subsidiaries as at December 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Vancouver, Canada,*
*April 4, 1974.*

Clarkson, Gordon & Co.

*Chartered Accountants*

# CONTROLLED FOODS SERVICE LOCATIONS:

Operating 20 units in Canada
between Vancouver and Hull.
A growing modern restaurant chain
serving Canadian families twenty-four hours a day.

Operating 50 units in Canada
between Victoria and Sherbrooke.
A&W remains the leader in the drive-in food industry.

## Five Year Statistical Review

*(000's eliminated)*

| | 1973 | 1972 | 1971 | 1970 | 1969 |
|---|---|---|---|---|---|
| Sales | **$20,381** | $15,398 | $12,966 | $13,181 | $12,945 |
| Franchise fees | **—** | — | — | 123 | 88 |
| Other income | **101** | 149 | 270 | 258 | 173 |
| | **20,482** | 15,547 | 13,236 | 13,562 | 13,206 |
| Cost of sales | **7,132** | 5,402 | 4,713 | 4,967 | 4,986 |
| Operating expenses | **11,396** | 8,483 | 7,155 | 7,353 | 7,142 |
| | **18,528** | 13,885 | 11,868 | 12,320 | 12,128 |
| Operating profit | **1,954** | 1,662 | 1,368 | 1,242 | 1,078 |
| Depreciation & amortization | **488** | 366 | 318 | 342 | 313 |
| Interest | **338** | 235 | 181 | 223 | 162 |
| | **826** | 601 | 499 | 565 | 475 |
| Income before taxes | **1,128** | 1,061 | 869 | 677 | 603 |
| Income taxes | **527** | 517 | 396 | 287 | 294 |
| Income before extraordinary items | **601** | 544 | 473 | 390 | 309 |
| Extraordinary income (expenses) | **132** | 51 | 848 | (1,109) | — |
| Net income (loss) for year | **$ 733** | $ 595 | $ 1,321 | $ (719) | $ 309 |
| Average number of shares outstanding | **2,660** | 2,631 | 2,625 | 2,625 | 2,451 |
| Earnings per share before extraordinary items | **$ .23** | $ .21 | $ .18 | $ .15 | $ .13 |
| Earnings (loss) per share | **$ .28** | $ .23 | $ .50 | $ (.27) | $ .13 |

**Directors**
Kenneth A. Fowler
LeRoy E. Fuller
Joseph C. Murphy
J. Marcel Prefontaine

**Officers**
LeRoy E. Fuller
J. Marcel Prefontaine
D. Glen Neil
Robert R. Roe

**Audit Committee**
Kenneth A. Fowler
Joseph C. Murphy

**Head Office**
Vancouver, Canada

**Solicitors**
Davis & Company

**Transfer Agent**
Canada Permanent
Trust Company

**Auditors**
Clarkson, Gordon & Co.

**Bankers**
The Toronto-Dominion Bank
The Mercantile Bank of Canada

**Stock Listing**
Toronto Stock Exchange
Symbol: CFS

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